



Statement of the American Farm Bureau Federation

**TO THE
SUBCOMMITTEE ON OVERSIGHT OF THE COMMITTEE ON WAYS
AND MEANS**

**REGARDING TAX PROVISIONS CONTAINED IN THE
PATIENT PROTECTION AND AFFORDABLE CARE ACT
AND THE HEALTH CARE AND EDUCATION RECONCILIATION ACT
OF 2010**

MARCH 5, 2013

The American Farm Bureau Federation commends the Subcommittee on Oversight for holding a hearing to examine the impacts of tax provisions contained in health care reform legislation. We offer these comments on the harmful impact that new Medicare taxes, the Health Insurance Tax and tax penalties for failure to meet coverage requirements will have on our nation's farmers and ranchers.

Medicare Taxes

The Patient Protection and Affordable Care Act (PPACA) creates a new 3.8 percent tax that will be applied to "unearned" income of so-called high income taxpayers beginning in 2013. Farmers and ranchers are most likely to be impacted from profits from capital gains and rental income. In addition, a new 0.9 percent Medicare tax will be imposed on wages and self-employment income above established thresholds for high income individuals. Unlike the current Medicare tax paid by the self-employed, no income tax deduction is available for half of this new tax.

Farmers and ranchers who are landlords will be subject to a 3.8 percent Medicare Contribution Tax on rental income if they exceed AGI thresholds and realize a profit from rental property. For example, a farmland owner who rents 100 acres for \$200 per acre and spends \$1,000 for property taxes and other expenses will turn a profit of \$19,000. This amount will be included in the AGI calculation and will be subject to the 3.8 percent Medicare Contribution Tax when a taxpayer is pushed over the high-income threshold.

Farmers and ranchers exceeding the AGI thresholds will also be subject to the Medicare Contribution Tax on capital gains income when they sell land or buildings. For example, assume a farmer sells 100 acres of land for \$1 million that has been held for 30 years. After adjusting the basis for improvements made while the asset was owned, the gain from the sale is \$900,000. This amount will be included in the AGI calculation and will be subject to the Medicare Contribution Tax. This sale alone will cause the farmer or rancher to be considered "high income" and will subject the proceeds from the sale to the 3.8 percent Medicare Contribution Tax, and trigger the 0.9 percent Medicare tax on wages and self-employment income over the threshold.

These Medicare taxes impact farmers and ranchers more harshly than many other tax payers because farming and ranching is a capital intensive business and because farm and ranch profits fluctuate greatly from year-to-year due to unpredictable markets, varying yields caused by volatile weather and the erratic actions of global competitors. Profitable years must make up for lean years in order for agricultural producers to remain in business. The imposition of the 3.8 percent Medicare Contribution Tax on unearned income and the 0.9 percent Medicare tax on wages and self-employed income during a good year when AGI thresholds are exceeded reduces agricultural producers' ability to compensate for bad years and threatens business sustainability. In addition, the aggregate Medicare tax amount paid by farmers and ranchers will be more than a taxpayer earning the same income on a level basis.

The imposition of the Medicare Contribution Tax when a farm or ranch is sold amounts to a "retirement tax" on agricultural producers and is unfair to those who invest in their businesses rather than traditional retirement vehicles. Farmers and ranchers typically prepare for their senior years by reinvesting farm and ranch profits back into their businesses with the anticipation of

selling assets to fund retirement. When a farm sale occurs, a farmer or rancher is likely to have a spike in income pushing earnings above the AGI threshold for high earners, and because 84 percent of a typical farm's assets are land or buildings, there will also be a huge jump in taxable unearned income in the year of sale.

The Medicare Contribution Tax can also hurt young farmers and ranchers wanting to get into production agriculture. When capital gains taxes are assessed on land sales, sellers are not as likely to sell, or will demand a higher price to compensate for additional costs. Adding the Medicare Contribution Tax on top of capital gains taxes will make it harder for beginning farmers to acquire the land that they need to get started in business and for expanding farmers to purchase additional land. This increases the likelihood that farmland will be sold for other uses when young farmers and ranchers find it hard to buy from a retiring producer.

The *American Taxpayer Relief Act of 2012* did set the capital gains tax rate at 15 percent for taxpayers making under \$400,000 (single person)/\$450,000 (couple). Taxpayers over the threshold pay capital gains taxes at a 20 percent rate. However, the capital gains tax rate that farmers and ranchers will pay will almost always be 20 percent because income will spike and exceed the thresholds in the year that a farmer or rancher sells his land. The higher rate will be imposed even though a farmer's or rancher's average annual income would not have exceeded the thresholds. Adding the 3.8 percent Medicare Contribution Tax on top of the already inflated 20 percent capital gains tax rate is particularly onerous.

Farm Bureau supports a repeal of the 3.8 percent Medicare Contribution Tax that will be applied to "unearned" income of so called high income taxpayers and the new 0.9 percent Medicare tax that will be imposed on wages and self-employment income above established thresholds for high income individuals.

Health Insurance Tax

The Health Insurance Tax (HIT) is expected to raise \$87 billion over the first 10 years it is in place. During 2014, the year that the HIT Tax takes effect, \$8 billion dollars will be collected. This will increase health insurance costs for farmers, ranchers and other small businesses by imposing a levy on the net premiums of health insurance companies

Most farmers and ranchers and other small businesses are not self-insured because they do not have a large enough pool of employees. Instead, small employers purchase health insurance in the fully insured market. Because fully insured health plans are the plans that factor into the equation that determines how much HIT Tax an insurance company pays, the cost of the HIT Tax will be passed through to small businesses that purchase those plans.

A recent Congressional Budget Office (CBO) report confirms that the HIT Tax "would be largely passed through to consumers in the form of higher premiums for private coverage." Health insurance costs for small businesses are already rapidly trending higher, increasing 100 percent since 2000. This new tax will raise insurance costs even more, making it harder for farmers and ranchers to purchase coverage for themselves, their families and their employees.

Farm Bureau supports H.R. 763, introduced by Reps. Charles Boustany (R-La.) and Jim Matheson (D-Utah) to repeal the annual fee on health insurance providers enacted as part of the Patient Protection and Affordable Care Act (PPACA).

Tax Penalties for Coverage Failure

Farm Bureau believes that health care is primarily the responsibility of individuals and we remain opposed to mandates that require individuals to have health insurance and to mandates that require employers to provide health insurance for their workers.

Health insurance costs are an ongoing and significant expense for farmers and ranchers who buy coverage for themselves and their families and for the agricultural workers they employ. Most farmers and ranchers are self-employed and buy health insurance for themselves and their workers through individual and small group markets. While exchanges may help address costs, PPACA tax incentives designed to help individuals and small employers afford health insurance costs are inadequate and temporary. The health insurance coverage mandate accompanied by the threat of a tax penalty for noncompliance is only making the situation worse for people unable to afford health care coverage in the first place.

Coverage mandates the accompanying tax penalties are especially burdensome to rural American families who already pay a greater percentage of their after-tax family income on health insurance than urban American families. According to the Council of Economic Advisors, 24.2 percent of families in rural areas spend more than 10 percent of their income on health insurance coverage, compared with 18.1 percent of families in urban areas.